Economics and Sociology
Occasional Paper No. 1761

THE BANCO AGRICOLA DE LA REPUBLICA DOMINICANA AND THE INTER-AMERICAN DEVELOPMENT BANK: A BRIEF HISTORICAL REVIEW

by

Douglas H. Graham

and

Claudio Gonzalez-Vega

August, 1990

Agricultural Finance Program
Department of Agricultural Economics
and
Rural Sociology
The Ohio State University
2120 Fyffe Road
Columbus, Ohio 43210-1099

Abstract

This note examines the evolution of the relationship between the Banco Agricola de la Republica Dominicana and the Inter-American Development Bank (IDB) for 1978-1989. It evaluates the institutional-building impact of IDB technical cooperation as well as the negative impact of massive, non-selective, subsidized credit lines on the bank's financial viability. Recommendations for future donor interventions in Banco Agricola are included.

THE BANCO AGRICOLA DE LA REPUBLICA DOMINICANA AND THE INTER-AMERICAN DEVELOPMENT BANK: A BRIEF HISTORICAL REVIEW[1]

Douglas H. Graham and Claudio Gonzalez-Vega[2]

This note elaborates further on the experience of Banco Agricola de la Republica Dominicana with the Inter-American Development Bank (IDB)[3]. In particular, the recent historical evolution of this relationship is explored and evaluated. Four IDB programs have operated within Banco Agricola in the past 12 years, as indicated in Table 1 and Graph 1. From 1978 to 1989, the share of IDB loans in the bank's total outstanding portfolio has evolved from 16 to 18 percent in the late 1970s, to 22-26 percent in the early 1980s and, after a sharp decline since 1987, to only 4 percent in 1989. Overall, the IDB share averaged 15.6 percent of Banco Agricola's total portfolio for this 12-year period.

In evaluating the changing influence of the IDB in Banco Agricola's operations, one should keep in mind this rise and then decline in the IDB's share of the portfolio. Clearly,

---

[1] This note was prepared for the Office of External Review and Evaluation (ORE) of the Inter-American Development Bank (IDB), as background material for the Study of the IDB's Experience with Institutional Strengthening Assistance, under the direction of Francisco Guzman. The authors are responsible for the views expressed in this note, which may or may not be shared by the sponsoring institutions.

[2] The authors are Professors in the Department of Agricultural Economics and Rural Sociology at The Ohio State University. They are grateful to Ramon Aquino and other officials of the Banco Agricola de la Republica Dominicana for discussions about these issues.

[3] See Douglas H. Graham, Jeffrey Poyo, and Nelson Aguilera, "On the Viability of Agricultural Development Banks: Banco Agricola de la Republica Dominicana," Columbus, Ohio: Agricultural Finance Program, The Ohio State University, May, 1990.

the IDB's influcence was more pronounced from the mid-1970s through the early 1980s, than it has been from the mid-1980s to the present. Even in the face of its declining portfolio share, however, the IDB's influence on the organization and operational procedures of the bank has continued to be substantial.

The IDB had a positive impact on the design and implementation of Banco Agricola's loan operations during the mid-1970s to the early 1980s. This manifested itself in several ways. Banco Agricola had only a rudimentary understanding of how to organize itself for agricultural lending operations in those early years. The IDB played a valuable role in training Banco Agricola's staff to adopt modern management techniques and to avoid some of the more blatant political intrusions in bank portfolio management. Credit manuals, loan forms, accounting procedures, criteria for loan classification of clients and, more recently, computerization of loan accounts have all been introduced and carried out through the institutional influence of successive IDB programs in the bank. There was no other international institution prepared or interested in carrying out this role in the mid-1970s and early 1980s for Banco Agricola. This institution-building role and the associated learning processes have been the most important contribution of IDB and its influence continues in bank operating procedures long after the decline in IDB funding.

Having said this, however, it must be pointed out that the IDB credit philosophy and operating guidelines also introduced important negative features into portfolio management techniques, compromising the long run viability of Banco Agricola. Little consideration was given in this respect to Banco Agricola's own perceptions and interests. Rather, IDB standard criteria were imposed. First were the detailed targeting criteria introduced through

IDB lines of credit. These were documented and discussed in some detail in the Graham, Poyo, and Aguilera paper. These targeting requirements reduced the ability of Banco Agricola to determine individual creditworthiness, with the accompanying increase in loan default, and increased transaction costs for both the borrowers and the bank. Too many bureaucratic steps and delays in disbursement are common.

The second pernicious influence was the IDB pressure to engage in quick massive disbursement of funds to a large number of targeted clientele, way beyond the loan evaluation capacity of the bank's staff. Moreover, the bank was generally penalized with fines if its disbursement schedule lagged. In the end, this pressure reduced incentives for the bank's staff to engage in any careful risk-adjusted evaluation of potential loan recovery for clients. Thus, it is not surprising to note the rather high delinquency and default rates recorded for the IDB loan clientele in the Graham, Poyo, and Aguilera paper, particularly when compared to the lower default rates associated with the bank's freely managed (untargeted) own-capital portfolio, or the untargeted USAID-funded portfolio.

A third issue, also associated with targeting, grew out of the IDB's refusal to raise its minimum loan size in the face of rising inflation. Banco Agricola officials commented on how this was severely restrictive in the inflation-driven 1980s. The resulting disbursements were in effect too small in terms of loan ceilings, and too restrictive in terms of total permitted asset size for borrowers. This forced Banco Agricola to engage in costly defensive innovations, to get around the IDB's inflexibility on this issue.

Fourth, the stop and start syndrome in the disbursement of donor-sourced funds clearly characterized the IDB's flow of funding into Banco Agricola. Too much initial IDBrequired negotiations for program agreement lead to delays, followed by abrupt disbursements, rather than a steady flow of finance through time. The abrupt injections followed by sharp declines in IDB program monies can be seen in Table 1 for each one of the four IDB program sources. These sharp fluctuations generated asset management problems for the bank. The uneven flow of funds disturb and distort bank-client relationships. According to Banco Agricola field officers, it is precisely this uneven flow of funding that led to high delinquency and default in the IDB loan portfolio, as the interupted cash flow jeapordized the economic success of their clients' investment projects. The lack of permanency of the program weakened expectations about future lines of credit as an incentive for loan repayment. This largely explains the paradox of so many donor (ie. IDB) clients classified initially as excellent or very good credit risks terminating as defaulted clientele. After 1986, the flow of IDB financing was terminated, on the basis of deficiencies in the bank's financial viability and portfolio management that were in part due to the adoption of an IDB credit philosophy: a massive, non-selective injection of credit on concessional terms. Banco Agricola officials found this to be ironic.

Fifth, IDB reporting requirements have been excessive. Over a dozen people were incorporated into the staff just to carry out the reporting requirements associated with targeted subsidized credit. Banco Agricola officials feel this was a costly and fruitless exercise. They further feel that very few people in IDB ever read these on-going reports or the credit input studies performed periodically at IDB's request.

It would appear that the technical cooperation between outside IDB-hired specialists and Banco Agricola personnel have not always been satisfactory. The outside expert-visitors were seldom well integrated into the bank's staff or operations. They invariably arrived with pre-conceived notions and rarely listened carefully to bank officials' views. A sign of unsatisfactory performance in this regard was the frequent hiring of similar experts to carry out the same tasks that were not implemented well following previous technical assistance missions.

It is also pertinent to underscore the fact that different departments within the IDB talk differently concerning appropriate portfolio management techniques and credit philosophies. Some continue to promote the old supply-led, targeted credit philosophy, while others emphasize financial viability and more responsible risk-management procedures. Banco Agricola officials frequently referred to this confusing lack of a definitive philosophy. This no doubt reflects an on-going process of professional maturation and intellectual debate within IDB itself.

By the mid-1980s, Banco Agricola faced a crossroads. The bank found itself largely cut off from international donor funding, particularly new IDB funding. Ironically, the bank now experienced criticism from IDB officials for the very consequences (growing arrears and default) brought on by following their supply-led, targeted disbursement advice from the mid-1970s onwards. Now the touchstone became financial viability, unsubsidized interest rates, and reduced arrears which, of course, is very different from the earlier IDB emphasis.

Thus Banco Agricola has been forced to follow two somewhat contradictory paths to maintain its operations since the mid-1980s. The first was to mobilize domestic savings deposits through a more aggressive campaign of deposit mobilization. It is unlikely that this initiative, assisted by Ohio State University advisors, would have borne fruit, as it has, if lowcost international donor funds had remained available. The second path was increased capitalization by the Dominican Government. This unfortunately reopened the door of targeted credit to a large number of high-risk and unmonitorable clientele, that has in turn worsened the delinquency and default indicators of the bank's portfolio.

The bank has thus a dual portfolio structure. On the one side is a responsible, low-arrears portfolio of loans serviced through savings deposits and the bank's own capital funds as well as AID's revolving fund. On the other side is the large Government-directed portion of the portfolio, with high arrears. The IDB's remaining portfolio falls between these two performance parameters. It is ironical that just when international donors began to change their credit philosophies to emphasize financial viability, unsubsidized interest rates, and responsible risk management in lending with strong savings mobilization, the Government now enters the scene ressurecting all the pernicious targeted, subsidized, credit policies and leading to unacceptably high-risk exposure and high defaults in Banco Agricola's portfolio.

Clearly, the future role for donors and, in particular, the IDB is to counter this self-defeating political intrusion into Banco Agricola's portfolio by the Dominican Government. Documentation of loan repayment status for the bank's portfolio has now been made possible through the computerization of all loan accounts. The disturbing state of the portfolio is now more thoroughly understood by the bank's officials and the desire to attain greater financial autonomy from the Government is strong. It is also important for the bank to gain the freedom to fire incompetent personnel and reward well performing staff, to maintain morale and discipline. It is also important for the bank to be allowed to raise its interest rates even more, to aggressively compete for domestic savings deposits and offset the rising rates of inflation. Further investment in software programs for effective loan tracking is called for, so that the bank can use its computer hardware facilities better to secure financial viability in its loan operations. IDB leadership in promoting these new directions for Banco Agricola (and countering the Government's negative intervention) could make a major contribution to the future of the institution.

Table 1: Banco Agricola Relative Importance of the IDB Programs in Banco Agricola's Total Portfolio, 1978-1989.

Year	Plan 21	Plan 27	Plan 34	Plan 37	IDB Programs	Bank's Portfolio	%
1978	13,531,323	8,345,852			21,877,175	136,551,688	16.02
1979	10,267,920	21,622,849			31,890,769	176,141,021	18.11
1980	7,972,040	22,593,184	29,468,383		60,033,607	225,652,744	26.60
1981	6,477,114	19,007,516	38,933,256		64,417,886	248,365,029	25.94
1982	5,324,161	15,636,864	40,470,081		61,431,106	251,915,230	24.39
1983	4,372,283	12,098,516	32,194,849	7,696,943	56,362,591	255,542,211	22.06
1984	3,555,387	8,342,877	18,586,125	18,873,778	49,358,167	239,905,550	20.57
1985	3,490,380	7,996,865	17,895,549	21,926,262	51,309,056	247,112,451	20.76
1986	2,178,262	4,447,662	10,152,987	52,112,236	68,891,147	282,424,070	24.39
1987	7,783,621	3,215,265	8,107,991	55,289,026	68,395,903	398,087,951	17.18
1988	1,564,348	2,137,141	5,756,575	39,085,523	48,543,587	667,623,650	7.27
1989	1,314,644	1,582,702	4,420,196	30,493,871	37,811,413	855,902,647	4.42
12-Year Total					620,322,407	3,985,224,242	15.57